



STATE OF WASHINGTON

OFFICE OF THE FORECAST COUNCIL

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October 11, 2002

TO: Senator Sid Snyder, Chair
Senator Dino Rossi
Representative Jack Cairnes
Representative Jeff Gombosky
Marty Brown, OFM, Director
Will Rice, DOR, Acting Director

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: October 10, 2002 REVENUE COLLECTION REPORT

General Fund-State (GFS) receipts were \$35.6 million more than expected in the September 11- October 10 collections period. Revenue Act taxes (sales, B&O use, public utility and tobacco products taxes), the state's major excise taxes, were \$31.7 million above the estimate for the month accounting for most of the variance. Although revenue collections for the month are higher than anticipated, the positive variance does not reflect a strong economy. The majority of this month's variance (\$26.0 million) is due to special factors or reflects unusually large payments that are unrelated to the economy. These are slower than normal processing of returns, less than normal refunds, and three unusually large real estate excise tax payments. Excluding these items, collections would be \$9.6 (1.3 percent) above the forecast. This reflects a modest increase in consumer spending, despite a weak labor market and falling confidence. Low interest rates have sparked a surge of mortgage refinancing, which has provided households with additional spending power. Consumer spending on autos has remained especially strong as dealers and manufacturers continue to extend very attractive incentive packages. Most of the positive variance this month, special factors aside, was due to another strong month of auto sales. While revenue collections are higher than expected, the underlying economy remains weak. Preliminary data indicate that Washington employment declined a little in both August and September; the September forecast was expecting a slight increase.

Revenue Act collections in the current collection period (primarily August 2002 business activity) were \$31.7 million above the estimate for the month and 6.8 percent above the year-ago level. Both the variance and the growth are distorted by special factors. The implementation of optical character recognition technology has caused some delay in the processing of excise tax returns this period. This has resulted in the overstatement of the General Fund's share of excise tax payments (Revenue Act) by about \$15 million. In addition, the amount of refunds issued this

month is unusually low (about \$5.5 million lower than normal). Excluding these two special factors, Revenue Act collections are \$11.2 million above the estimate for the month and 2.7 percent higher than a year-ago. This is about the same as the 2.8 percent increase last month. The positive increases the last two months, while quite modest, indicate that Revenue Act growth likely will be positive for the quarter. This would be the first quarterly increase in five quarters. Most of this growth this month is due to very strong auto sales. Preliminary data on August 2002 activity of taxpayers filing electronically show that tax payments of auto dealers were 16.2 percent higher than a year-ago. With the exception of building materials/garden equipment retailers who reported a 9.6 percent increase in tax payments, other retailers reported little or no increase from a year ago. Tax payments of non-retailers were again below a year-ago with the manufacturing sector reporting a 12.3 percent drop in tax payments. Tax payments by the construction sector were 4.3 below the year ago level. Despite a still healthy residential housing market, non-residential construction activity remains very weak.

Other General Fund taxes collected by the Department of Revenue were \$3.8 million above the estimate for the month. Stronger than expected real estate excise and estate tax payments were the primary sources of the non-revenue act variance, although all major non-revenue act sources were above the estimate for the month. The higher than expected real estate excise tax payments were due to three unusually large payments (\$5.5 million). Excluding these payments, real estate activity in August (closings in August generate tax payments to the state in September) was 2.4 percent below the year-ago level. This was the first monthly decline since March. Last month activity was up 7.0 percent. Taxable real estate activity in August declined 5.1 percent in King County and 20.5 percent in Snohomish County but increased 5.6 percent in the rest of the state.

General Fund collections by the Department of Licensing, primarily license fees, were \$35,000 more than the forecast for the month.

The attached table 1 provides a comparison of collections with estimates for the current midmonth period, September 11- October 10, and cumulatively since the September forecast. Note the cumulative variance since the last forecast shown in Table 1 is virtually the same as the shortfall for the current month because the monthly estimates based on the September forecast reflect actual collections through September 10, 2002. Table 2 compares revised collection figures to the preliminary numbers reported in last month's midmonth report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
October 10, 2002 Collections Compared to the September 2002 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
September 11 - October 10, 2002				
Department of Revenue-Total	\$737,188	\$772,720	\$35,532	4.8%
Revenue Act** (1)	655,667	687,416	31,749	4.8%
Non-Revenue Act(2)	81,522	85,304	3,783	4.6%
Liquor Sales/Liter	7,971	8,351	381	4.8%
Cigarette	5,138	5,248	111	2.2%
Property (State School Levy)	9,877	10,519	642	6.5%
Estate	10,699	11,923	1,224	11.4%
Real Estate Excise	44,745	46,451	1,706	3.8%
Timber (state share)	0	0	0	NA
Other	3,093	2,812	(281)	-9.1%
Department of Licensing (2)	760	795	35	4.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$737,948	\$773,515	\$35,567	4.8%
Cumulative Variance Since the September Forecast (September 11 - October 10, 2002)				
Department of Revenue-Total	\$737,188	772,718	35,529	4.8%
Revenue Act** (3)	655,667	687,416	31,749	4.8%
Non-Revenue Act(4)	81,522	85,302	3,780	4.6%
Liquor Sales/Liter	7,971	8,351	381	4.8%
Cigarette	5,138	5,248	111	2.2%
Property (State School Levy)	9,877	10,519	642	6.5%
Estate	10,699	11,923	1,224	11.4%
Real Estate Excise	44,745	46,451	1,706	3.8%
Timber (state share)	0	0	0	NA
Other	3,093	2,809	(284)	-9.2%
Department of Licensing (4)	760	834	74	9.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$737,948	\$773,551	\$35,603	4.8%

1 Collections September 11 - October 10, 2002. Collections primarily reflect August 2002 activity of monthly taxpayers.

2 September 1-30, 2002 collections.

3 Cumulative collections, estimates and variance since the September 2002 forecast; (Sept. 11 - Oct. 10, 2002) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2002 forecast;(September 2002) and revisions to history.)

* Based on the September 2002 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
September 10, 2002 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
Aug. 11 - Sept. 10, 2002				
Department of Revenue-Total	\$605,177	\$605,177	(\$0)	-0.0%
Revenue Act (1)	657,028	657,028	0	0.0%
Non-Revenue Act(2)	(51,852)	(51,852)	0	-0.0%
Liquor Sales/Liter	7,885	7,885	(0)	-0.0%
Cigarette	4,703	4,703	0	0.0%
Property (State School Levy)-net	(126,672)	(126,672)	(0)	0.0%
Property tax collections	6,450	7,212	762	11.8%
transfer to the Student Achievement Acct.	(133,122)	(133,885)	(763)	0.6%
Estate	18,024	18,024	0	0.0%
Real Estate Excise	39,311	39,311	(0)	-0.0%
Timber (state share)	1,977	1,977	0	NA
Other	2,920	2,920	0	0.0%
Department of Licensing (2)	1,316	1,355	39	3.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$606,493	\$606,532	\$39	0.0%

Cumulative Receipts: June 11 - Sept. 10, 2002 & Revisions to History

Department of Revenue-Total	2,496,226	\$2,496,223	(\$3)	-0.0%
Revenue Act (3)	2,073,856	2,073,856	(0)	-0.0%
Non-Revenue Act(4)	422,370	422,367	(3)	-0.0%
Liquor Sales/Liter	22,848	22,848	0	0.0%
Cigarette	14,742	14,762	20	0.1%
Property (State School Levy)-net after transfer	184,770	184,770	(0)	-0.0%
Property tax collections	317,892	318,655	763	0.2%
transfer to the Student Achievement Acct.	(133,122)	(133,885)	(763)	NA
Estate	33,841	33,871	30	0.1%
Real Estate Excise	119,712	119,712	(0)	-0.0%
Timber (state share)	1,977	1,977	0	NA
Other	44,451	44,428	(23)	-0.1%
Department of Licensing (4)	9,926	9,965	39	0.4%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,506,152	\$2,506,188	\$36	0.0%

P-Preliminary. Reported in the Sept. 10, 2002 collection report.

R Revised data.

1 Collections Aug. 11 - Sept. 10, 2002. Collections primarily reflect July 2002 business activity of monthly taxpayers.

2 Aug. 1-31, 2002 collections.

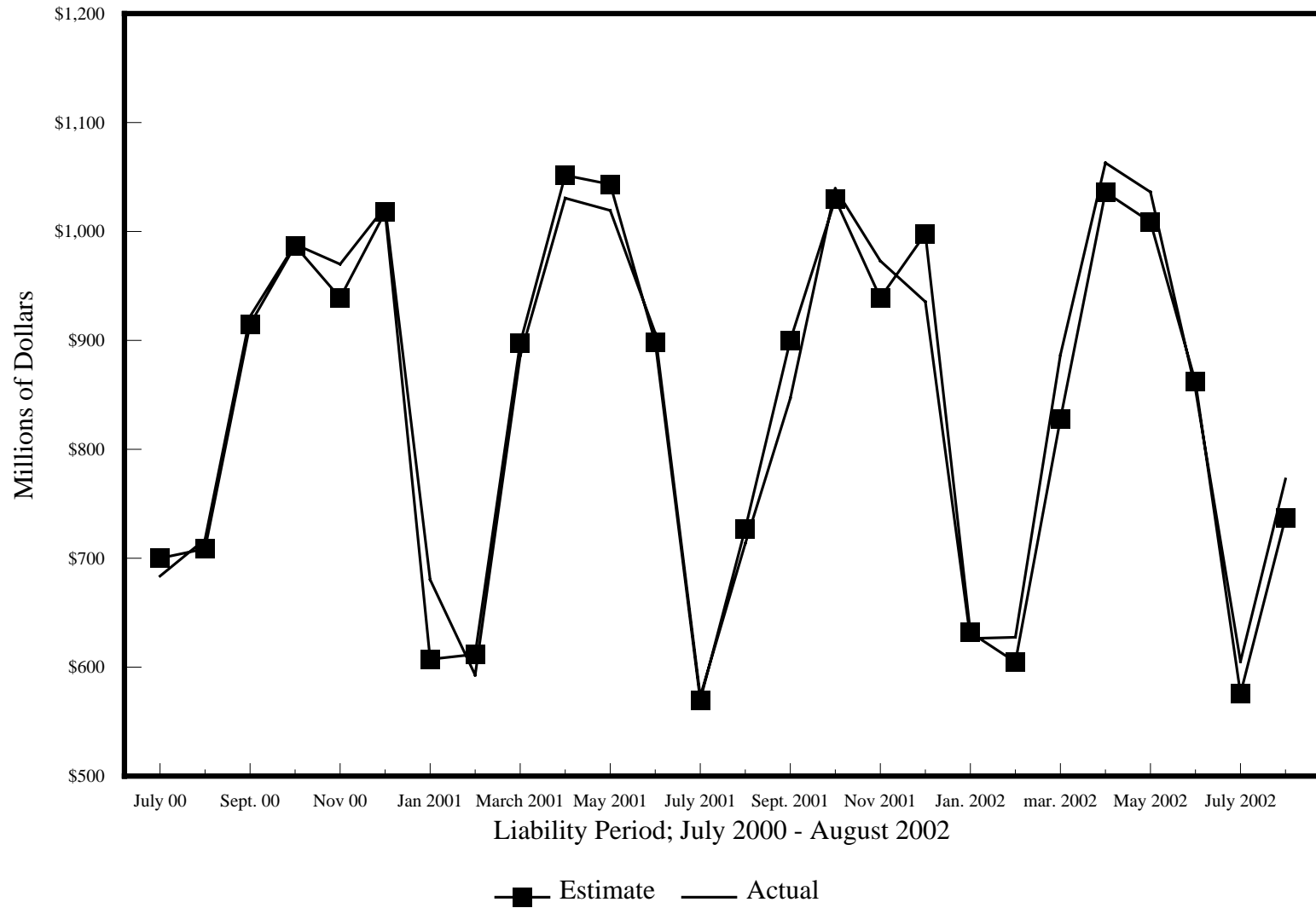
3 Cumulative variance for since the June 2002 forecast: June 11 - September 10, 2002 & revisions to history.

4 Cumulative variance: since the June 2002 forecast (June 2002- August 2002) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

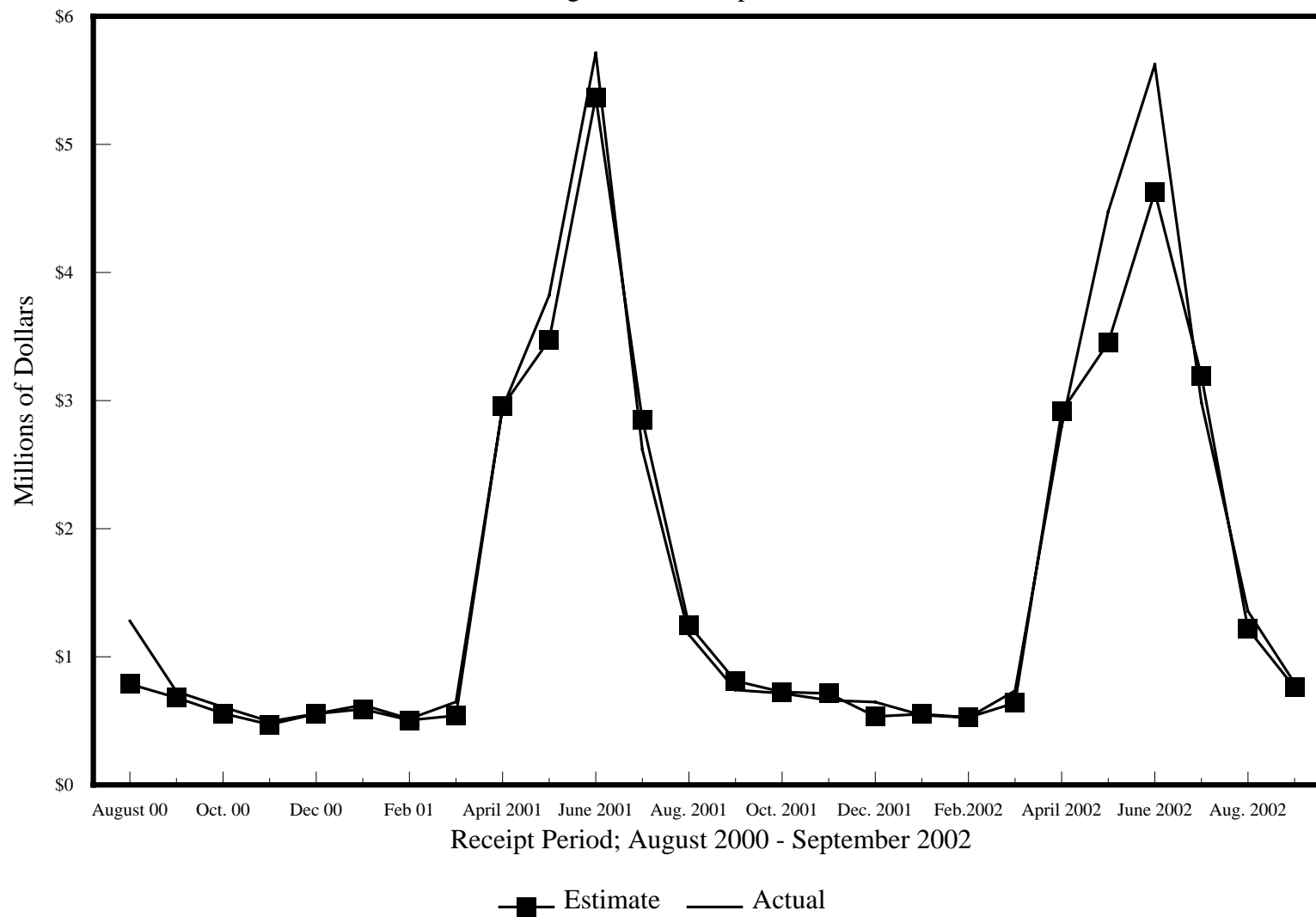
Department of Revenue: General Fund-State, Actual vs. Estimate

July 2000 to August 2002



Department of Licensing General Fund-State, Actual vs. Estimate

August 2000 to September 2002



Revenue Act Net Collections

Year-over-Year Percent Change

